A NEW ERA OF ENVIRONMENTAL INVESTMENT AND RESPONSIBILITY

Remarks by California State Treasurer Phil Angelides
to the
Institutional Investor Summit on Climate Risk
UN Headquarters, New York City
November 21, 2003

Thank you, Treasurer Nappier. It is an honor to be in such distinguished company: Secretary-General Annan; Vice President Gore; Senator Wirth and members of the UN Foundation; the leadership of CERES; fellow Treasurers and comptrollers; distinguished guests:

It is inspiring to be a part of this historic event in this prestigious venue where world priorities are debated and established. The overarching issue before us today – responsible corporate performance relating to the environment, and in particular, climate change – is central, not only to our financial future, but also to the very future of our planet.

As California's Treasurer and chief investment officer, I am reminded daily that the State of California – through its $300 billion pension and investment portfolios – is integrally woven into the fabric of the global capital markets. I am acutely aware that the way in which we deploy capital can shape not only the contours of our economy, but also the future of our communities, our society, and our environment for decades to come.

During the five years that I have served as Treasurer, we have approached capital investment in California with the recognition that investment practices can and should be a powerful force for the creation of financial value and wealth *and* for the betterment of life in our State, the nation, and across the globe.

We have mobilized financial capital in new and innovative ways, consistent with the highest fiduciary standards, to meet our "double bottom line" goals of achieving positive financial returns and fostering sustainable growth and sound environmental practices.

We have been on a journey to explore the ways in which we could marry the jet stream of finance and the capital markets with public purpose. We began with an initiative called *Smart Investments*, and using that as a blueprint, we have committed more than $12 billion in public funding at the State level to spur sustained economic progress and to support environmental responsibility.

As part of this initiative, we have redirected financing for affordable housing to fund projects that are located near transit, exceed the State's energy standards by 15 percent, and use sustainable building materials. We began providing grants to communities for innovative, locally sponsored smart growth initiatives which promote sustainable development. And, we have revolutionized the way the State buys vehicles for its fleet, sponsoring successful legislation to weed out gas guzzlers and to increase the purchase of fuel efficient vehicles – thereby reducing costs, air pollution, and our dependence on oil.

We then launched a second policy effort in this arena, that we called *The Double Bottom Line: Investing in California's Emerging Markets,* with a goal of achieving solid returns for the State's pension and investment funds while also curbing sprawl and bringing life and opportunity to inner city neighborhoods that – too often – have been thrown away in 25-year cycles.

To date, we have directed over $8 billion in pension and investment capital into underserved communities with our *Double Bottom Line* programs – equity investments in inner city businesses and in-fill real estate projects; mortgages for working Californians in urban neighborhoods; and deposits of State funds in community banks and credit unions to expand home and business lending in the low-and-moderate-income communities of our cities.

We are being good financial stewards of the funds entrusted to us as we work to reduce growth pressures on urban fringe areas, improve air quality, and strengthen our inner city neighborhoods.

And we have begun to apply these sustainable investment principles beyond the boundaries of our own State. At the California Public Employees' Retirement System – most of you know it as CalPERS – we sponsored adoption of landmark first-in-the-nation standards that affect over $1 billion in pension fund investments in developing countries across the globe. These standards are designed to improve the long-term performance of CalPERS' investments in these overseas emerging markets and to encourage enduring economic progress in those markets. As a key component of this effort, we are focusing on whether the countries and companies in which we invest are putting in place sustainable development and environmental protection policies that truly contribute to the long-term economic value that is the objective of our pension systems.

Today we are taking an important next step on our journey by exploring the connection between climate risk and fiduciary responsibility, and discussing how we can use our collective experience in the fields of investment and corporate governance to advance solutions that respond to our abiding environmental challenges, at the forefront of which is climate change.

And I would just like to say, at this point, that I believe we can apply some of the lessons we have learned from the recent wave of corporate scandals to the discussion we are having today. The actions we have taken in response to the breakdown in ethical standards in our financial markets have been based on our strong conviction that there is a coincidence between good corporate practices and the creation of long-term, sustained value.

In our reform efforts, we have sought to move corporations and investors away from the destructive get-rich-quick mentality that became all too fashionable in the 1990s, and away from the demands for and expectations of quarter-by-quarter results. We have sought more than a change in the rules of governance. Our goal has been and must continue to be to achieve no less than a return to the values that are the basis of enduring economic strength – a willingness to make investments for the long term and a commitment to create wealth and value for our society.

I would argue that there is a parallel between the CEO who cooks the books to pump up the value of his company's stock while he is simultaneously looting the firm for his own gain, and a corporation that increases its returns for a few quarters by exploiting the environment. In the end, the CEO who looted his corporation leaves investors with a degraded company. The corporation that exploited the environment leaves behind *both* a damaged environment and, ultimately, a degraded company.

Today's discussion represents the next frontier in what must become a global effort to demonstrate that responsible corporate environmental stewardship and long-term investment value are inextricably linked. I strongly believe that a vigorous environmental investment strategy is not only consistent with our fiduciary objectives, but also represents an opportunity to participate in a growing and dynamic sector of the global economy.

For example, the environmental technology sector is expanding rapidly in response to the growing worldwide need for clean water, energy efficiency, and other sustainable environmental solutions. Moreover, there is increasing evidence that investments in companies that practice prudent environmental stewardship are more likely to produce good results for stockholders over the long term, while investments in companies with poor environmental practices and significant liabilities put investors at risk. Smart investors are moving now to learn more about the nexus between environment and capital, and to avail themselves of the expanding opportunities in this realm.

And, of course, there are other benefits to investing in companies that adhere to strong environmental standards and that are developing the next wave of alternative, clean technology – protecting our natural resources, buttressing the growth of a powerful technology sector, and boosting job growth and economic development.

The time has come for those of us who are investment leaders to open the doors to a new era of smart environmental investment. And here are four elements which I believe can provide an initial blueprint for this important endeavor.

First, pension funds must take the lead in encouraging corporations to provide meaningful, consistent, and robust reporting of their environmental practices, risks and potential liabilities. We must also push companies – through dialogue, shareholder resolutions, and other actions – to improve their environmental operations. Pension funds and other U.S. investors must join with the global investment community in this effort, for just as we have a global economy, we also have global environmental problems. I believe that hanging in the balance of this effort is the very future of life – as we know it – on this earth.

Corporate reporting of environmental practices is important because shareholders need to know if the companies they own are going down the prudent path by adopting environmental practices that will enable them to survive and thrive in a world of increasing environmental concern and regulation. Or whether they are taking the path of denial, risk, liability, and cost.

If we demand better disclosure and transparency, there is greater likelihood that corporations will take the right path. We have learned from recent corporate scandals that when people do things in the light of day, they are more likely to do the right thing by their shareholders, and by the larger community. And when actions are cloaked in secrecy, they rarely bring good results.

The second leg of this environmental investment initiative must be to increase the commitment of private equity and venture capital to develop the clean technologies that are essential to a future with less pollution. This is a strategic investment imperative whose moment has arrived. Across the globe, demographic trends, public awareness, environmental crises, and increased regulation and public policy attention are driving growth in the clean technology industry. I believe that these events have presented us with an opportunity to turn this nascent industry into an economic dynamo that can provide us with positive financial returns as we develop jobs and address our environmental problems.

We can take a third step down the path of financial and environmental responsibility by marrying the stock portfolios of responsible investors with corporations that are on the leading edge of environmental stewardship. We are at a pivotal moment, as environmentally and socially screened investment funds have moved from the margins to the mainstream of our financial markets. Pension funds can give a powerful boost to this important trend by investing in environmentally-screened funds that are performing as well or better than their non-screened counterparts. Ultimately, I believe it will become standard investment practice to seek out public equity investment managers who have expertise in environmental screening.

Finally, pension and investment funds which have significant real estate portfolios should audit their holdings to determine whether or not they are maximizing their opportunities in clean energy, energy efficiency, and green building standards and practices – to reduce long-term costs and to boost long-term value. California's two public pension funds alone have invested nearly $16 billion in real estate. We can spur the best kind of building practices by the way in which we move our capital.

It is obvious from the information available to the scientific community that we are now facing the most potentially damaging changes to our physical world in recorded history. We know that these changes will have an impact on all economic sectors, and that environmental risk, and the climate in particular, is a factor that must be considered, in varying degrees, by the managers of every investment portfolio throughout the world. And we need to be astute enough to ensure that our private markets help us meet the environmental challenges we face, as they also help us create wealth in the best sense of the word.

The task before us now is to convince the corporate and financial community that sound environmental practices, performed with transparency to investors, are vitally important to everyone in the human family. This is the right thing to do and the smart thing to do. Today's Summit is a logical, reasoned call to action, and we must make sure that it is a call that resonates with every investor, and in every corporate boardroom around the globe.

Thank you for the opportunity to speak. I look forward to acting in concert with each of you who participated in this Summit today.